

**OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C.
20508**

USTR PRESS RELEASES ARE AVAILABLE ON THE USTR WEBSITE AT WWW.USTR.GOV.

**FOR IMMEDIATE RELEASE
JUNE 1, 2001**

**01-33
CONTACT: RICHARD MILLS
(202) 395-3230**

**Bush Administration Helps Wheat Gluten Industry
Restore Its Competitiveness**

WASHINGTON - The Bush Administration today announced an innovative approach to help the U.S. wheat gluten industry move beyond the safeguard provided for the past three years under Section 201 of the Trade Act. Instead of extending the safeguard, which would have triggered the continuation of European Union (EU) tariffs on corn gluten exports to Europe, the Administration has ended the safeguard but agreed to provide the wheat gluten industry \$40 million over two years to complete its transition to competitiveness.

For the past three years, the wheat gluten industry has benefitted from a safeguard quota under Section 201. As the International Trade Commission (ITC) has determined, the wheat gluten industry has used this period constructively to return to competitiveness, but it needs more time. To avoid trade retaliation against the United States under WTO rules, the Administration is substituting financial support for the quota. The assistance program, to be administered and funded by the U.S. Department of Agriculture (USDA), will provide funding for marketing, product development, and capital expenditures over a two-year period. Wheat gluten producers may submit requests for funding early next week. The assistance will be provided immediately following USDA approval of the requests.

“This innovative program demonstrates the Administration’s commitment to help workers, agricultural communities, and small- and mid-sized businesses that are trying to adjust to import surges,” U.S. Trade Representative Robert B. Zoellick said today. “By providing this assistance, we promote the recovery of a U.S. industry and its transition into new product lines without exposing our exporters to trade retaliation. This is an example of how we can use our trade laws to help industries meet import competition, without risks to American exporters.”

In effect, this approach has monetized a possible extension of the quota and enabled the wheat

gluten industry to move forward without triggering foreign retaliation against another industry. It also makes clear the nature of U.S. support. Extension of the 201 safeguard measure beyond the existing three-year period would have exposed U.S. exporters (particularly its corn gluten exporters) to approximately \$50 million in trade retaliation over two years.

Background

The United States imposed a quota on wheat gluten for a three-year period beginning on June 1, 1998, with expiration scheduled at 11:59 p.m. tonight. The quota was imposed based on a finding by the ITC that imported wheat gluten was causing serious injury to domestic wheat gluten producers. The producers indicated that, if granted relief from increased imports, they would invest in production facilities to produce modified wheat gluten for use as a protein supplement, in plastics, and in cosmetics, among other purposes.

The European Union challenged the quota before the World Trade Organization (WTO). As a result of this action, the WTO Appellate Body decided in December 2000 that the wheat gluten quota was inconsistent with WTO rules. In response to this finding, the EU imposed a special duty on a portion of imports of corn gluten from the United States, which are worth approximately \$400 million annually. It is understood the EU will remove this duty when the safeguard expires.

In November 2000, U.S. producers of wheat gluten filed a request with the ITC for a two-year extension of the quota on wheat gluten, to June 1, 2003. In its investigation, the ITC found that while the quota was in effect, the domestic producers made substantial new investments in plant and equipment, product development and marketing. As a result, sales of modified wheat gluten and wheat starch increased. However, the ITC also found that the wheat gluten industry needed to make additional expenditures on facilities and marketing to reach its goals.

Wheat gluten is the concentrated form of the protein contained in wheat flour. It is traditionally used to make baked goods and pet food. In modified form, it may be used as a meat extender, egg substitute, or an ingredient in the production of biodegradable plastics. In 2000, The U.S. wheat gluten industry operated facilities in Kansas, Illinois, Minnesota, and Iowa, and produced 176 million pounds of wheat gluten.

###